Written Comments Submitted to the Commerce Committee
State of Connecticut

By Jean M. Grace

Hearing on SB 971: An Act Concerning Small Business Retirement Plans

February 24, 2009

My name is Jean Grace. As a Connecticut taxpayer and a person knowledgeable about the Employer Retirement Plan industry, I ask the Committee oppose this bill in its current form.

The State is proposing to get in the business of offering retirement programs for small employers. The justification is that the State can offer such programs for significantly reduced fees. The State however is taking on considerable fiduciary risk and will be competing against private industry.

State representatives correctly state that costs are preventing more small employers from offering retirement programs to their employees. Plan expenses come in different forms:

- In-house cost of employer to run the plan
- Cost of Employer contributions
- Plan Administration Service Fees
- Investment Management Fees

The State program will not change the in-house cost or the cost of Employer contributions. Federal regulations define the plan administration services required by each Employer's plan. Unless under common ownership, each employer is required to individually meet nondiscrimination coverage and testing requirements; therefore, large economies of scale do not exist for administration fees. The State's proposal is centered on investment management fee savings.

In a February 21, 2008 Press Release from the State Senate Democratic Leadership commenting on the proposed State sponsored program it was stated "One significant reason for this problem is that due to their size, small businesses cannot achieve the economies of scale that make 401(k) programs useful to their employees: fees are too high to allow meaningful growth for retirement." The hypothetical examples on account accumulation referenced in the press release, however, reflected an account balance at retirement of $1.5 million dollars under the current private systems for a couple earning $56,950 today assuming an employee contribution of 10% of salary, a 3% annual salary increase, a 3% annual employer contribution and a 7% annual rate of return. Although reduced investment management fees would allow the account to grow further, I suggest $1.5 million dollars is "meaningful growth for retirement."

The investment management fees affect how much an account balance grows and not the cost to the Employer of offering a plan. It is the other costs which have stopped many small employers from offering a retirement program to their employees. If you couple the belief by a majority of small employers that employees seek higher salary versus excellent retirement benefits along with the need for employer contributions if the small business owner wants to significantly benefit personally from the Plan, the small employer does not rank the need for a company sponsored retirement plan high on the employee benefit ladder.

Low cost alternatives such as Simple 401k Plans or Simplified Employee Pension Plans (SEPS) are available to employers. Employees who have no employer sponsored programs can make tax deductible IRA contributions. While I agree we need to encourage workers to save for retirement, we should promote the programs currently available rather than having the State assume a Fiduciary role in a complex industry.

Respectfully submitted:

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